MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

**AUDIT REPORT**

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

February 2018

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Miles Community College for the fiscal year ended June 30, 2017.

The audit was conducted by Eide Bailly LLP, under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver
Legislative Auditor

17C-08

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

## ORGANIZATION

Fiscal Year Ended June 30, 2017

### BOARD OF TRUSTEES



### COLLEGE OFFICIALS

# Independent Auditor's Report

Board of Trustees
Miles Community College
Miles City, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, the aggregate remaining fund information, and the discretely presented component unit of Miles Community College (the College), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the College, as of June 30, 2017, and the respective changes in financial position and cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



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**Other Matters**

*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, other postemployment benefits other than pensions – schedule of funding progress, schedule of employer's proportionate share of net pension liability and schedule of employer contributions as noted in the table of contents to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The student financial aid modified statement of cash receipts and disbursements, schedule of federal expenditures – student financial assistance program, schedule of full time equivalent and functional classification of operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued a report dated February 12, 2018, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
February 12, 2018

**Miles Community College, Custer County, Montana**
**Management's Discussion and Analysis**
**Fiscal Year Ended June 30, 2017**

## Overview

Miles Community College was founded in 1939 and is located in Miles City, Montana. The College mission promotes students for success and provides opportunities for lifelong learning through quality programs, community outreach, and partnerships.

The following is a Management Discussion and Analysis (MD&A) for Miles Community College (the College) which includes an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2017. The information has been prepared by management and is to be read in conjunction with the accompanying financial statements and footnotes.

## Using the Financial Statements

The College's financial statements consist of the following three statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows.

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-For Public Colleges and Universities*. These statements focus on the financial condition of the college, the results of operations, and cash flows of the college as a whole.

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.

- Capital assets are depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.

- Assets and liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Position are presented in order of their relative liquidity.

- Revenues and expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. "Non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Position primarily because GASB requires that State Appropriation and District Levy revenues must be reported as "non-operating".

- Tuition and fees are reported net of any tuition waivers that were applied directly to a student's account.

- Due to the issuance of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* the Statement of Net Position added new sections, Deferred Outflows of Resources and Deferred Inflows of Resources.

The three financial statements are designed to help the reader of the financial statements to determine whether the College's overall financial condition has improved or deteriorated as a result of the current year's financial activities. These financial statements present similar information to that disclosed in private sector financial statements.

**Financial Highlights for Fiscal Year 2017**

**Statement of Net Position**

The Statement of Net Position, which reports all assets and liabilities, deferred outflows and deferred inflows of the College, presents the financial position of the College at the end of the fiscal year. The net position is simply the difference between total assets and deferred outflows and total liabilities and deferred inflows. The change in net position during the fiscal year is an indicator of the change in the overall financial condition of the College during the year. A summary of the Statement of Net Position follows:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| **ASSETS** | | |
| Total current assets | $ 3,758,191 | $ 4,299,379 |
| Total noncurrent assets | 11,376,745 | 7,202,630 |
| **TOTAL ASSETS** | $ 15,134,936 | $ 11,502,009 |
| **DEFERRED OUTFLOWS OF RESOURCES** | $ 609,741 | $ 300,797 |
| **LIABILITIES** | | |
| Total current liabilities | $ 707,352 | $ 698,550 |
| Total noncurrent liabilities | 7,600,273 | 6,505,425 |
| **TOTAL LIABILITIES** | $ 8,307,625 | $ 7,203,975 |
| **DEFERRED INFLOWS OF RESOURCES** | $ 58,543 | $ 294,940 |
| **NET POSITION** | | |
| Net Investment Capital Assets | $ 9,052,045 | $ 5,226,824 |
| Restricted, expendable | 115,560 | 115,560 |
| Unrestricted | (1,789,096) | (1,038,493) |
| **TOTAL NET POSITION** | $ 7,378,509 | $ 4,303,891 |

**Comparison of 2017 and 2016 Financial Position**

- **Current assets** include the College's cash; taxes, grants, and accounts receivable; inventories; prepaid expenses, and other assets expected to benefit the College within one year. The $541,188 decrease from FY 2016 to FY 2017 was due primarily to a decrease in cash as a result of financing the Ag Advancement Center and the Armory capital projects.

- **Noncurrent assets** primarily represent the College's capital assets less accumulated depreciation. The increase is due to increased capital assets. During FY 2017, the College completed the build of the Ag Advancement Center and renovation of the Armory building.

- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities increased $8,802 from FY 2016 to FY 2017, due largely to an increase in accounts payable for the Armory building.

- **Noncurrent liabilities** primarily represent debt principal payments due after a one-year period and the amount of compensated absence liability estimated to be due after a one-year period. These balances increased a total of $1,094,848 from FY 2016 to FY 2017, primarily due to increases in pension liabilities, other post-employment benefits liabilities and debt service.

- **Net Investment Capital Assets** represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt increased by $3,825,221 from FY 2016 to FY 2017 as capital assets increased.

- **Restricted expendable net position** represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.

- **Unrestricted net position** are funds that the College has to use for whatever purpose it determines is appropriate. This net position may be designated for specific purposes by action of management.

- **Total net position** increased by $3,074,618 from FY 2016 to FY 2017, which is a reflection of increases in capital assets.

**Statement of Revenue, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year on a full accrual basis, which means revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid. Results of operations are classified as either operating or non-operating.

A summary of the Statement of Revenues, Expenses and Changes in Net Position follows:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Operating revenues | $ 5,504,511 | $ 5,174,819 |
| Operating expenses | 9,285,543 | 8,908,308 |
| **OPERATING LOSS** | $ (3,781,032) | $ (3,733,489) |
| Non-operating revenues (expenses) | $ 6,855,650 | $ 4,129,910 |
| **CHANGE IN NET POSITION** | $ 3,074,618 | $ 396,421 |

**Comparison of 2017 and 2016 Results of Operations**

- **Operating revenues** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues increased by $329,692 from FY 2016 to FY 2017. This is due primarily to increased tuition and fees, and auxiliary activities.

- **Non-operating revenue (expenses)** consists of capital contributions, interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating revenue increased $2,725,740 from FY 2016 to FY 2017. The major item affecting this change was the capital contribution of the Ag Advancement Center by Miles Community College Endowment.

**Increase in net position** represents the difference between total revenues and total expenses.

The following provides a comparative analysis of revenues and expenses for two fiscal years:

### ANALYSIS OF ALL SOURCES OF REVENUE

| Source of Revenue | Fiscal Year 2017 Amount | Fiscal Year 2017 Percent | Fiscal Year 2016 Amount | Fiscal Year 2016 Percent | Increase (decrease) FY'17 vs. FY'16 |
|---|---|---|---|---|---|
| **Operating revenues** | | | | | |
| Tuition and fees (net) | $ 1,789,251 | 14.38% | $ 1,646,257 | 17.52% | $ 142,994 |
| Federal grants and contracts | 1,737,110 | 13.96% | 1,715,818 | 18.25% | 21,292 |
| Auxiliary enterprise activities | 1,167,281 | 9.38% | 1,060,644 | 11.28% | 106,637 |
| Other operating revenues | 301,960 | 2.43% | 241,783 | 2.57% | 60,177 |
| Private and local grants and contracts | 285,829 | 2.30% | 320,645 | 3.41% | (34,816) |
| State grants and contracts | 200,663 | 1.61% | 175,422 | 1.87% | 25,241 |
| Indirect cost recoveries | 22,417 | 0.18% | 14,250 | 0.15% | 8,167 |
| **Total operating revenue** | 5,504,511 | 44.24% | 5,174,819 | 55.05% | 329,692 |
| **Non-operating revenues** | | | | | |
| Capital contributions | 2,688,003 | 21.61% | - | - | 2,688,003 |
| State appropriations | 2,530,029 | 20.33% | 2,527,241 | 26.89% | 2,788 |
| District levies | 1,309,235 | 10.52% | 1,287,452 | 13.70% | 21,783 |
| State reimbursements | 373,303 | 3.00% | 362,613 | 3.86% | 10,690 |
| Interest income | 37,339 | 0.30% | 41,750 | 0.44% | (4,411) |
| Gain on disposal of capital assets | - | -% | 5,967 | 0.06% | (5,967) |
| **Total non-operating revenues** | 6,937,909 | 55.76% | 4,225,023 | 44.95% | 2,712,886 |
| **Total revenue** | $ 12,442,420 | 100% | $ 9,399,842 | 100% | $ 3,042,578 |

## ANALYSIS OF CATEGORY OF EXPENSE

| Category of Expenses | Fiscal Year 2017 Amount | Fiscal Year 2017 Percent | Fiscal Year 2016 Amount | Fiscal Year 2016 Percent | Increase (decrease) FY'17 vs. FY'16 |
|---|---|---|---|---|---|
| **Operating expenses** | | | | | |
| Personnel expenses | $ 5,051,786 | 53.93% | $ 4,558,728 | 50.63% | $ 493,058 |
| Scholarships and grants | 1,054,330 | 11.26% | 1,118,265 | 12.42% | (63,935) |
| Depreciation | 577,921 | 6.17% | 545,664 | 6.06% | 32,257 |
| Contracted service | 555,137 | 5.93% | 647,285 | 7.19% | (92,148) |
| Supplies | 418,003 | 4.46% | 430,028 | 4.78% | (12,025) |
| Food for resale | 265,451 | 2.83% | 244,467 | 2.71% | 20,984 |
| Utilities | 208,329 | 2.22% | 179,587 | 1.99% | 28,742 |
| Other operating expenses | 205,953 | 2.20% | 174,458 | 1.94% | 31,495 |
| Travel | 170,783 | 1.82% | 199,191 | 2.21% | (28,408) |
| Items for resale | 155,587 | 1.66% | 175,979 | 1.95% | (20,392) |
| Advertising | 120,652 | 1.29% | 78,127 | 0.87% | 42,525 |
| Communications | 100,959 | 1.08% | 93,409 | 1.04% | 7,550 |
| Insurance | 89,686 | 0.96% | 83,642 | 0.93% | 6,044 |
| Student support | 89,138 | 0.95% | 85,737 | 0.95% | 3,401 |
| Repairs and maintenance | 58,297 | 0.62% | 74,537 | 0.83% | (16,240) |
| Meetings and dues | 49,539 | 0.53% | 35,758 | 0.40% | 13,781 |
| Bad debt expense | 45,178 | 0.48% | 60,823 | 0.67% | (15,645) |
| IT system support | 35,038 | 0.37% | 58,286 | 0.65% | (23,248) |
| Indirect costs | 21,452 | 0.23% | 13,248 | 0.15% | 8,204 |
| Rent and lease | 12,324 | 0.13% | 51,089 | 0.57% | (38,765) |
| **Total operating expenses** | 9,285,543 | 99.12% | 8,908,308 | 98.94% | 377,235 |
| **Non-operating expenses** | | | | | |
| Interest payments | 82,259 | 0.88% | 95,113 | 1.06% | (12,854) |
| **Total non-operating expenses** | 82,259 | 0.88% | 95,113 | 1.06% | (12,854) |
| **Total expenses** | $ 9,367,802 | 100% | $ 9,003,421 | 100% | $ 364,381 |

Comments about specific revenue and expense items are:

- **Revenues:** During FY 2017 the College received an increase in tuition and fees (net) of $142,994. The College and Miles Community College Endowment partnered to construct the Ag Advancement Center resulting in a capital contribution of $2,688,003. These items represent the two largest increases in revenues.

- **Expenses (general comment):** Overall expenses increased $364,381 from FY 2016 to FY 2017. Personnel service expense increased due to employee raises and termination payouts.

## STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the College's sources and uses of cash during the fiscal year. This statement aids in assessing the College's ability to meet obligations and commitments as they become due, their ability to generate future cash flows and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method," which focuses on those transactions that either provided or used cash during the fiscal year.

A summary of the Statement of Cash Flows follows:

| CASH FLOW CATEGORY | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities | $ (2,951,486) | $ (3,796,043) |
| Noncapital activities | 4,205,005 | 4,205,549 |
| Capital and related financing activities | (1,797,397) | (1,273,806) |
| Investing activities | 37,339 | 41,750 |
| Net increase (decrease) in cash | (506,539) | (822,550) |
| Cash and cash equivalents, beginning of year | 3,384,579 | 4,207,129 |
| Cash and cash equivalents, end of year | $ 2,878,040 | $ 3,384,579 |

**Comparison of 2017 and 2016 Cash Flows**

- **Operating activities** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating activities decreased by $844,557 from FY 2016 to FY 2017. This is mainly due to grants and contracts and payments to employees.

- **Noncapital financing activities** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Non-operating activities decreased $544 from FY 2016 to FY 2017. The major items affecting this change were state appropriations and reimbursements.

- **Capital and related financing activities** consists of purchases of capital assets and payments of principal and interest on loans. These activities increased $523,591 mainly due to the purchase of capital assets. Additional loans were added.

## Capital Assets

The College's investment in capital assets as of June 30, 2017, equates to $11,376,745, net of accumulated depreciation. Investment in capital assets normally includes land, buildings, improvements, machinery and equipment, library holdings, and software. The increase was due to the purchase of capital assets. See additional information within footnote 5.

## Debt Administration

The College's long-term debt obligations as of June 30, 2017, equates to $2,209,141. The College had six long-term debt obligations at fiscal year end June 30, 2017. See additional information within footnote 6.

## DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population –** Miles Community College is located in eastern Montana and has a current Fall 2017 headcount (based on 15-day census numbers) of 459 and full-time equivalent (FTE) of 373.92. This represents a 4.2% decrease from the Fall 2016 15-day census FTE. By utilizing strategic enrollment management measures, the faculty and staff at MCC have developed enrollment and retention strategies for enrollment growth. Major growth patterns continue to emerge in the residential headcount. This growth has been seen in dual enrollment in local and area high schools (48 FTE dual enrollment in Spring 2017) as well as in local Custer County residents (111.3 FTE in Fall 2017, a 6.3% increase over Fall 2016).

  The need for workforce training is still prevalent in Custer County. The College is meeting this need by partnering with local companies such as Transco and Jackson Contractor Group to develop curriculums that students can complete that can lead to employment with these companies. The construction of the new Ag Advancement Center, which opened April 2017, and the acquisition and remodeling of the old National Guard Armory into the Workforce Readiness Center (August 2017), will allow the College to keep meeting the increased demand for Ag and Equine programming as well as allow the College to expand its Heavy Equipment Operations and CDL Programs. With a Vision 2020 document in place, the College has positioned itself to meet the workforce and educational needs of Custer County and the Miles City community.

- **Faculty and Staff –** The College continues to have challenges finding and retaining qualified faculty and staff. High wages in local trades and higher paying jobs in other states make it hard to find interested candidates for open positions.

- **State and Local Funding –** Eastern Montana has remained economically sound over the recession and has seen recent growth with the potential for large growth in various industries. To support growth in the service region and increased employment options for its population, Miles Community College must continue to work with the state legislature, local tax payers, federal and private grants, and private industry to develop funding and partnership opportunities.

**Miles Community College, Custer County, Montana**
**Statement of Net Position**
**June 30, 2017**

| | Primary Government | Component Unit |
|---|---|---|
| | Business-Type Activities | Miles Community College Endowment |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,762,480 | $ 411,039 |
| Taxes receivable | 27,173 | - |
| Grants receivable | 505,149 | - |
| Accounts receivable - net | 292,608 | 445,268 |
| Inventories | 118,957 | - |
| Prepaid expense | 51,824 | - |
| Total current assets | 3,758,191 | 856,307 |
| Noncurrent assets: | | |
| Restricted cash and investments | 115,560 | 730,834 |
| Capital assets, net | 11,261,185 | - |
| Total noncurrent assets | 11,376,745 | 730,834 |
| Total assets | 15,134,936 | 1,587,141 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pension related deferred outflows | 609,741 | - |

See Accompanying Notes to Financial Statements

**Miles Community College, Custer County, Montana**
**Statement of Net Position**
**June 30, 2017**

| | Primary Government | Component Unit |
|---|---|---|
| | Business-Type Activities | Miles Community College Endowment |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 192,263 | 84,097 |
| Accrued payroll | 248,952 | - |
| Deferred revenue - tuition and fees | 77,963 | - |
| Student deposits | 30,200 | - |
| Current portion of compensated absences payable | 42,515 | - |
| Current portion of long term obligations | 115,459 | 782,228 |
| Total current liabilities | 707,352 | 866,325 |
| Noncurrent liabilities: | | |
| Compensated absences payable | 382,634 | - |
| Long term obligations | 2,093,682 | - |
| Other post employment benefits | 937,451 | - |
| Other post employment benefits - accrued insurance | 453,900 | - |
| Net pension liability | 3,732,606 | - |
| Total noncurrent liabilities | 7,600,273 | - |
| Total liabilities | 8,307,625 | 866,325 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Pension related deferred inflows | 58,543 | - |
| **NET POSITION** | | |
| Net investment in capital assets | 9,052,045 | - |
| Restricted for debt service | 115,560 | - |
| Restricted for scholarships, research, instruction, and other | - | 720,816 |
| Unrestricted | (1,789,096) | - |
| Total net position | $ 7,378,509 | $ 720,816 |

See Accompanying Notes to Financial Statements

**Miles Community College, Custer County, Montana**
**Statement of Revenues, Expenses and Changes in Net Position**
**For the Fiscal Year Ended June 30, 2017**

| | Primary Government | | Component Unit | |
|---|---|---|---|---|
| | Business-Type Activities | | Miles Community College Endowment | |
| **Operating revenues** | | | | |
| Tuition and fees (net of scholarship allowance of $475,339) | $ | 1,744,073 | $ | - |
| Federal grants and contracts | | 1,737,110 | | - |
| Auxiliary activities | | 1,167,281 | | - |
| Private and local grants, contributions and contracts | | 285,829 | | 1,010,921 |
| State grants and contracts | | 200,663 | | - |
| Other operating revenues | | 169,919 | | - |
| Athletic donations | | 120,000 | | - |
| Indirect cost recoveries | | 22,417 | | - |
| Other athletic allowance | | 12,041 | | - |
| Total operating revenues | $ | 5,459,333 | $ | 1,010,921 |
| **Operating expenses** | | | | |
| Personnel services | $ | 5,051,786 | $ | - |
| Contracted services | | 1,074,763 | | - |
| Scholarships and grants | | 1,054,330 | | 21,450 |
| Supplies | | 897,338 | | - |
| Depreciation expense | | 577,921 | | - |
| Other operating expense | | 413,444 | | - |
| Travel | | 170,783 | | - |
| Program disbursements | | - | | 3,546,042 |
| Management and general | | - | | 5,120 |
| Professional fees | | - | | 12,878 |
| Total operating expenses | $ | 9,240,365 | $ | 3,585,490 |
| Operating income (loss) | $ | (3,781,032) | $ | (2,574,569) |

See Accompanying Notes to Financial Statements

**Miles Community College, Custer County, Montana**
**Statement of Revenues, Expenses and Changes in Net Position**
**For the Fiscal Year Ended June 30, 2017**

| | Primary Government | Component Unit |
|---|---|---|
| | Business-Type Activities | Miles Community College Endowment |
| **Non-operating revenues (expenses)** | | |
| Capital contribution | $ 2,688,003 | $ - |
| State appropriations | 2,530,029 | - |
| District levies | 1,309,235 | - |
| State reimbursements | 373,303 | - |
| Interest revenue | 37,339 | 89,442 |
| Debt service interest expense | (82,259) | - |
| Total non-operating revenues (expenses) | $ 6,855,650 | $ 89,442 |
| Change in net position | $ 3,074,618 | $ (2,485,127) |
| Net position, beginning | $ 4,303,891 | $ 3,205,943 |
| Net position, ending | $ 7,378,509 | $ 720,816 |

See Accompanying Notes to Financial Statements

**Miles Community College, Custer County, Montana**
**Statement of Cash Flows**
**For the Fiscal Year Ended June 30, 2017**

| | | Primary Government |
|---|---|---|
| **Cash flows from operating activities** | | |
| Tuition and fees | $ | 1,617,250 |
| Grants and contracts | | 2,347,371 |
| Payments to employees | | (4,763,088) |
| Payments to suppliers | | (2,062,285) |
| Payments for utilities | | (208,329) |
| Payments for scholarships and fellowships | | (1,054,330) |
| Auxiliary activities | | 1,164,091 |
| Other cash receipts | | 7,834 |
| Net cash used in operating activities | $ | (2,951,486) |
| **Cash flows from noncapital financing activities** | | |
| State appropriations | $ | 2,530,029 |
| State reimbursements | | 373,303 |
| District levies | | 1,301,673 |
| Net cash provided by noncapital financing activities | $ | 4,205,005 |
| **Cash flows from capital and related financing activities** | | |
| Purchase of capital assets | $ | (2,064,033) |
| Proceeds from capital debt | | 480,000 |
| Principal paid on capital debt | | (131,105) |
| Interest paid on capital debt | | (82,259) |
| Net cash used in capital and related financing activities | $ | (1,797,397) |
| **Cash flows from investing activities** | | |
| Interest received on cash and cash equivalents | $ | 37,339 |
| Net cash provided by investing activities | $ | 37,339 |
| Net decrease in cash and cash equivalents | $ | (506,539) |
| Cash and cash equivalents, beginning of year | | 3,384,579 |
| Cash and cash equivalents, end of year | $ | 2,878,040 |
| **Reconciliation to Statement of Net Position** | | |
| Cash and cash equivalents | $ | 2,762,480 |
| Restricted cash | | 115,560 |
| Total cash and cash equivalents | $ | 2,878,040 |

See Accompanying Notes to Financial Statements

**Miles Community College, Custer County, Montana**
**Statement of Cash Flows**
**For the Fiscal Year Ended June 30, 2017**

| | | Primary Government |
|---|---|---|
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities** | | |
| Operating loss | $ | (3,781,032) |
| Noncash income and expense: | | |
| Depreciation | | 577,921 |
| Bad debt expense | | 45,178 |
| Other post employment benefits | | 154,795 |
| Net pension benefits | | 24,773 |
| Changes in net assets and liabilities: | | |
| Grants receivable | | 234,045 |
| Accounts receivable - net | | (142,584) |
| Prepaid expense | | (23,944) |
| Inventories | | (70,484) |
| Accounts payable | | 63,599 |
| Accrued payroll | | (13,298) |
| Deferred revenue - tuition and fees | | (29,417) |
| Student deposits | | (3,190) |
| Compensated absences payable | | 12,152 |
| Net cash used in operating activities | $ | (2,951,486) |
| | | |
| **Schedule of noncash financing and investing activities** | | |
| Capital assets contributed to the College | $ | 2,688,003 |

See Accompanying Notes to Financial Statements

**Miles Community College, Custer County, Montana**
**Statement of Fiduciary Net Position**
**Fiduciary Funds**
**June 30, 2017**

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 114,946 |
| Accounts receivable - net | 1,448 |
| Prepaid expense | - |
| Total assets | $ 116,394 |
| **LIABILITIES** | |
| Accounts payable | $ 1,242 |
| Due to student groups | 115,152 |
| Total liabilities | $ 116,394 |

See Accompanying Notes to Financial Statements

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Miles Community College (the College) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) Pronouncements.

### Financial Reporting Entity

In determining the financial reporting entity, the College complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity,* and includes all component units of which the College appointed a voting majority of the units' board; the College is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the College complies with GASB statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which relates to organizations that raise and hold economic resources for the direct benefit of the College. The College adopted the provision of GASB statement No. 61, *The Financial Reporting Entity* which amended statement No. 14.

*Primary Government*

The College was established under Montana law to provide post-secondary educational services. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the College is a primary government as defined by GASB Cod. Sec. 2100 and has one component unit.

*Discretely Presented Component Unit*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The College has the following discretely presented component unit: Miles Community College Endowment (the Endowment).

### Basis of Presentation, Measurement Focus and Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements of the College are accounted for using the accrual basis of accounting. Proprietary funds account for operations that are primarily financed by user charges. The economic resource focus involves determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

The College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with proprietary funds principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the College's policy to use restricted resources first, then unrestricted resources as they are needed.

**Fiduciary Funds**

Fiduciary funds account for assets held by the College in a trustee capacity or as an agent on behalf of other outside parties, or on behalf of other funds within the College. Agency funds are used to account for assets that the College holds for others in an agency capacity. The College receives scholarships and support from Miles Community College Endowment. The College maintains an endowment fiduciary fund to collect expenditures owed to the College then seeks reimbursement.

**Use of Estimates**

The preparation of financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred outflows and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

**Income Taxes**

As a public institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income. Defined by the Internal Revenue Code, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function. The College does not have unrelated business income tax to report during fiscal year ended June 30, 2017.

**Pensions**

Teachers Retirement System

The Teachers' Retirement System prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at https://trs.mt.gov/TrsInfo/NewsAnnualReports.

Montana Public Employees' Retirement System

Montana Public Employee Retirement Administration (MPERA) prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

**Miles Community College Endowment**

Nature of Activities

The Miles Community College Endowment is a nonprofit organization exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. The Miles Community College Endowment assists the College in achieving its mission to provide affordable and accessible comprehensive, quality, student-centered academic preparation and innovative vocational training programs. The mission of the Miles Community College Endowment is to assist the College with fundraising and to promote community awareness of campus needs to increase the flow of resources to support excellence in education. The primary sources of revenue for the Endowment are from contributions and investment income.

Basis of Accounting

The accounts of the Endowment are maintained, and the financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For financial statement purposes, the Endowment considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Classification of Net Position

The Endowment classifies all net assets as restricted by donor.

Investments

The investments are carried at fair value, unrecognized gains and losses are reflected in the Statement of Revenues, Expenses and Changes in Net Position as interest income.

## NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

**Cash Composition**

The College's cash, is held by the Custer County Treasurer and pooled with other County cash. With the College cash that is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and funded on a pro rata basis. The County's investment portfolio as of June 30, 2017, consisted of time deposits, U.S. Government Securities, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

The College does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Custer County deposits and investments is available from Custer County Treasurer's office, 1010 Main Street, Miles City, Montana 59301. The Custer County external investment pool is not rated. Fair value approximates carrying value for investments as of June 30, 2017.

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. Government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible.

For purposes of the Statement of Cash Flows, cash equivalents include all cash and investments, including restricted cash, with original maturity of three months or less.

**Deposits**

The College's cash, cash equivalents and investments as of June 30, 2017, consisted of the following:

| | |
|---|---|
| Cash on hand | $ 11,211 |
| Restricted cash – Debt Service | 115,560 |
| Invested in the County Investment Pool | 2,751,269 |
| Total cash, cash equivalents and investments | $ 2,878,040 |

The Endowment's cash and investments as of June 30, 2017, consisted of the following:

| | |
|---|---|
| Cash on hand | $ 161,709 |
| Demand deposit accounts | 239,792 |
| Money market accounts | 9,538 |
| Total | $ 411,039 |
| | |
| Restricted for Scholarships: | |
| First Interstate Financial | |
| Mutual Funds – MFS Utilities A | $ 181,700 |
| Ameriprise Financial | |
| Mutual Funds | 491,643 |
| Edward Jones | |
| Growth Fund of America | 57,491 |
| Total | $ 730,834 |

The Endowment's deposit balance at June 30, 2017 was $239,792, and the bank balance was $295,415. At June 30, 2017, $240,146 was insured by the Federal Deposit and Insurance Corporation (FDIC).

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Custer County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

**Concentration of Credit Risk**

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. There are no investments in any one issuer that represent 5% or more of the total College investments.

Concentration of credit risk for the Endowment is as follows:

| **Endowment** | $ | % |
|---|---|---|
| Ameriprise Financial | | |
| Equity securities within the mutual fund | $ 387,622 | |
| Fixed income securities within the mutual fund | 104,021 | |
| Total Ameriprise Financial | | 67% |
| Edward Jones | | |
| Growth Fund of America | 57,491 | 8% |
| First Interstate Financial | | |
| Mutual Funds-MFS Utilities A | 181,700 | 25% |
| Total investments | $ 730,834 | 100% |

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Custer County government is considered to have $250,000 FDIC coverage for demand deposits and $250,000 FDIC coverage for time and savings deposits in each bank in the state.

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2017.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Custer County Investment Pool).

## NOTE 3 RECEIVABLES

Taxes

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed, and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

An allowance for uncollectable accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Student Accounts Receivable

Student accounts receivable are reported net of allowance for doubtful accounts. These amounts are included in “Accounts Receivable – Net” on the Statement of Net Position.

| | |
|---|---|
| Student accounts receivable | $ 162,880 |
| Less allowances | (41,100) |
| Net student accounts receivable | $ 121,780 |

Unearned Revenue

Unearned revenue includes amounts received from student tuition and fees prior to the end of the fiscal year relating to summer term. These revenues are earned in the subsequent year.

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position.

Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or other third parties making payments on the students’ behalf.

## NOTE 4 INVENTORIES AND PREPAID EXPENSES

Inventories are valued at cost using the First In First Out (FIFO) method. The cost of inventories is recorded as an expenditure when consumed.

Prepaid expenses to vendors benefit future reporting periods and are also reported on the consumption basis.

## NOTE 5 CAPITAL ASSETS

The College's assets are capitalized at historical cost or estimated historical cost and the capitalization threshold for reporting purposes is as follows:

*Major tangible* items costing $5,000 or more and having a useful life of more than one year shall be capitalized and depreciated over the useful life of the item, when applicable, for purposes of property management and this policy. The useful life of an item shall be determined by Business Office personnel. Items costing less than $5,000 shall be expensed.

*Software* costing $25,000 or more and having a useful life of more than one year shall be capitalized and depreciated over the useful life of the software, when applicable, for purposes of property management and this policy. The useful life of the software shall be determined by Business Office personnel. Items costing less than $25,000 shall be expensed.

*Library* books shall be treated as a collection. Books shall be capitalized and reported at their historical cost. In the absence of historical cost information, the book's estimated historical cost shall be used. Donated books shall be capitalized and reported at their estimated acquisition value at the time of donation.

All capitalized individual books shall be depreciated over their estimated useful life using the straight-line method for depreciation, with no salvage value; and the collection shall be depreciated over its estimated useful life using one type of group or composite depreciation method, with no salvage value. The estimated useful life shall be determined by Business Office personnel.

*Buildings and building improvements* costing $25,000 or more shall be capitalized, and the useful life determined by the structure type defined in a current useful life table maintained by Business Office personnel. Buildings and building improvements costing less than $25,000 shall be expensed.

*Land* purchases shall be capitalized, regardless of cost.
*Land improvements and infrastructure* costing $25,000 or more shall be capitalized, and the useful life determined by the category of improvement as defined in a current useful life table maintained by Business Office personnel. Land improvements and infrastructure costing less than $25,000 shall be expensed.

Gifts or contributions of capital assets are recorded at acquisition value when received. The costs of normal maintenance and repairs are charged to operations as incurred.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

| | | |
|---|---|---|
| Buildings | …………………………………….. | 20-50 years |
| Equipment | …………………………………….. | 5-20 years |
| Library | ……………………………………. | 5 years |
| Software | ……………………………………. | 5 years |

The following tables present the changes in capital assets for the year ended June 30, 2017:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30,2017 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 206,412 | $ 187,644 | $ - | $ 394,056 |
| Total capital assets not being depreciated | $ 206,412 | $ 187,644 | $ - | $ 394,056 |
| Other capital assets | | | | |
| Buildings | $ 10,371,359 | $ 4,474,471 | $ - | $ 14,845,830 |
| Machinery & equipment | 2,660,483 | 88,893 | - | 2,749,376 |
| Software | 405,847 | - | - | 405,847 |
| Library inventory | 94,320 | 1,028 | - | 95,348 |
| Total other capital assets at historical cost | $ 13,532,009 | $ 4,564,392 | $ - | $ 18,096,401 |
| Less accumulated depreciation | | | | |
| Buildings | $ (4,769,092) | $ (329,199) | $ - | $ (5,098,291) |
| Machinery & equipment | (1,394,531) | (243,415) | - | (1,637,946) |
| Software | (405,847) | - | - | (405,847) |
| Library inventory | (81,881) | (5,307) | - | (87,188) |
| Total accumulated depreciation | $ (6,651,351) | $ (577,921) | $ - | $ (7,229,272) |
| Total capital assets, depreciable, net | $ 6,880,658 | $ 3,986,471 | $ - | $ 10,867,129 |
| Total | $ 7,087,070 | $ 4,174,115 | $ - | $ 11,261,185 |

## NOTE 6 LONG TERM LIABILITIES

The following table presents the changes in long-term liabilities for the year ended June 30, 2017:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 | Due within one year |
|---|---|---|---|---|---|
| Contracted debt | $ 1,860,246 | $ 480,000 | $ (131,105) | $ 2,209,141 | $ 115,459 |
| Compensated absences | 412,997 | 52,430 | (40,278) | 425,149 | 42,515 |
| Total | $ 2,273,243 | $ 532,430 | $ (171,383) | $ 2,634,290 | $ 157,974 |

Contracted Debt

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of $400,000. The note is payable in monthly installments of $3,177 on the 23rd day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2017 was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for Stockman Bank:

| For Fiscal Year Ended | Principal | Interest |
|---|---|---|
| 2018 | $ 8,280 | $ 92 |
| Total | $ 8,280 | $ 92 |

USDA Rural Development #1

The first note payable to the USDA Rural Development was in the original amount of $400,000. This note is payable in semi-annual installments of $15,936 due on March 23rd and September 23rd of each year. This note bears interest at 5.00% per annum. This note is secured by two tracts of land. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for USDA Rural Development:

| For Fiscal Year Ended | Principal | Interest |
|---|---|---|
| 2018 | $ 15,232 | $ 384 |
| Total | $ 15,232 | $ 384 |

First Interstate Bank

The mortgage payable to First Interstate Bank was in the original amount of $370,000. This mortgage is payable in monthly installments of $2,502 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 5.00%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2024. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

Annual requirement to amortize debt for First Interstate Bank:

| For Fiscal Year Ended | Principal | Interest |
|---|---|---|
| 2018 | $ 21,769 | $ 8,255 |
| 2019 | 22,883 | 7,142 |
| 2020 | 24,054 | 5,971 |
| 2021 | 25,284 | 4,740 |
| 2022 | 26,578 | 3,447 |
| 2023 | 27,938 | 2,087 |
| 2024 | 26,490 | 659 |
| Total | $ 174,996 | $ 32,301 |

USDA Rural Development #2

The second note payable to the USDA Rural Development was in the original amount of $1,500,000. This note is payable in monthly installments of $6,630 on the 18th day of each month. This note bears interest at 4.375% per annum. This note is secured by the residence hall building. Final payment on this note is due on April 18, 2044.

Annual requirement to amortize debt for USDA Rural Development:

| For Fiscal Year Ended | Principal | Interest |
|---|---|---|
| 2018 | $ 25,191 | $ 54,369 |
| 2019 | 26,291 | 53,269 |
| 2020 | 27,464 | 52,096 |
| 2021 | 28,690 | 50,870 |
| 2022 | 29,971 | 49,589 |
| 2023 | 31,309 | 48,251 |
| 2024 | 32,707 | 46,853 |
| 2025 | 34,166 | 45,394 |
| 2026 | 35,692 | 43,868 |
| 2027 | 37,285 | 42,275 |
| 2028 | 38,949 | 40,611 |
| 2029 | 40,688 | 38,872 |
| 2030 | 42,504 | 37,056 |
| 2031 | 44,401 | 35,159 |
| 2032 | 46,383 | 33,177 |
| 2033 | 48,454 | 31,106 |
| 2034 | 50,617 | 28,943 |
| 2035 | 52,876 | 26,684 |
| 2036 | 55,236 | 24,324 |
| 2037 | 57,702 | 21,858 |
| 2038 | 60,278 | 19,282 |
| 2039 | 62,968 | 16,592 |
| 2040 | 65,779 | 13,781 |
| 2041 | 68,715 | 10,852 |
| 2042 | 71,783 | 7,777 |
| 2043 | 74,988 | 4,573 |
| 2044 | 63,639 | 1,250 |
| Total | $ 1,254,726 | $ 878,731 |

Montana Department of Environmental Quality

The note payable to the Montana Department of Environmental Quality was in the original amount of $350,408 and will be paid off on August 1, 2031. This note is payable in annual installments of $23,553 due on August 1st of each year. Interest is payable at 3.00% per annum.

Annual requirement to amortize debt for the Montana Department of Environmental Quality:

| For Fiscal Year Ended | Principal | Interest |
|---|---|---|
| 2018 | $ 15,118 | $ 8,435 |
| 2019 | 15,571 | 7,982 |
| 2020 | 16,038 | 7,515 |
| 2021 | 16,520 | 7,033 |
| 2022 | 17,015 | 6,538 |
| 2023 | 17,526 | 6,027 |
| 2024 | 18,051 | 5,502 |
| 2025 | 18,593 | 4,960 |
| 2026 | 19,151 | 4,402 |
| 2027 | 19,725 | 3,828 |
| 2028 | 20,317 | 3,236 |
| 2029 | 20,927 | 2,626 |
| 2030 | 21,554 | 1,999 |
| 2031 | 22,201 | 1,352 |
| 2032 | 22,866 | 687 |
| Total | $ 281,173 | $ 72,122 |

**Board of Investments of the State of Montana**

The note payable to the Board of Investments of the State of Montana was in the original amount of $480,000. This note is payable in semi-annual installments due on February 15th and August 15th of each year. This mortgage bears interest at a variable rate, currently at 2.50%. Final payment on this note is due on August 15, 2031.

Annual requirement to amortize debt for Board of Investments of the State of Montana:

| For Fiscal Year Ended | Principal | Interest |
|---|---|---|
| 2018 | $ 29,869 | $ 12,067 |
| 2019 | 29,935 | 10,933 |
| 2020 | 30,401 | 10,182 |
| 2021 | 30,873 | 9,419 |
| 2022 | 31,354 | 8,644 |
| 2023 | 31,842 | 7,857 |
| 2024 | 32,337 | 7,058 |
| 2025 | 32,840 | 6,247 |
| 2026 | 33,351 | 5,423 |
| 2027 | 33,870 | 4,586 |
| 2028 | 34,397 | 3,736 |
| 2029 | 34,932 | 2,872 |
| 2030 | 35,476 | 1,996 |
| 2031 | 36,028 | 1,105 |
| 2032 | 17,229 | 214 |
| Total | $ 474,734 | $ 92,339 |

Compensated absences

Non-teaching College employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees and at the rate of one day per month for the length of the full-time teaching contract. Upon retirement or termination, employees are paid for 100% of unused vacation and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

## NOTE 7 TRS RETIREMENT PLAN

Plan Description

Teachers' Retirement System (TRS or the System) is a mandatory-participation multiple-employer cost sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at trs.mt.gov.

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - 1.85% x AFC x years of creditable service - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

**Overview of Contributions**

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for State and University Employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1st of each year.

**Net Pension Liability**

The College recorded a liability of $2,272,867 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportion of the net pension liability was based on the employer's contributions received by TRS during the measurement period July 1, 2015, through June 30, 2016, relative to the total College contributions received from all of TRS' participating employers. At June 30, 2017, the employer's proportion was 0.1244 percent.

***Changes in actuarial assumptions and methods***: Since the previous measurement date the normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

***Changes in benefit terms***: There have been no changes in benefit terms since the previous measurement date.

***Changes in proportionate share***: There were no changes between the measurement date of the collective net pension liability and the reporting date.

**Pension Expense**

| Pension Expense as of 6/30/2017 | TRS |
|---|---|
| Employer's Proportionate Share | $ 160,374 |
| State of Montana Proportionate Share Associated with the Employer | 83,213 |
| Total | $ 243,587 |

At June 30, 2017, the College recognized a Pension Expense of $160,374 for its proportionate share of the TRS' pension expense. The employer also recognized grant revenue of $83,213 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

**Deferred Inflows and Outflows**

At June 30, 2017, the College reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to TRS from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 12,153 | $ 4,832 |
| Changes in actuarial assumptions | 14,464 | 14,286 |
| Difference between projected and actual investment earnings | 146,362 | - |
| Changes in proportion and differences between actual and expected contributions | 9,205 | 34,593 |
| Contributions paid to TRS subsequent to the measurement date – FY 2017 contributions | 152,028 | - |
| | $ 334,212 | $ 53,711 |

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | Amount recognized in pension expense as an increase or (decrease) to pension expense |
|---|---|
| Year Ended June 30 | |
| 2018 | $ 7,884 |
| 2019 | (1,177) |
| 2020 | 69,227 |
| 2021 | 52,539 |

**TRS Stand-Alone Statements**

TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at https://trs.mt.gov/TrsInfo/NewsAnnualReports.

**Actuarial Assumptions**

The Total Pension Liability as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* 4.00%-8.51% for Non-University Members
  5.00% for University Members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
  - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
  - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality amount contributing members, service retired members, and beneficiaries
  - Mortality among contributing members, service retired members, and beneficiaries
  - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
  - For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
  - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
  - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

* Total Wage Increases include 4.00% general wage increase assumption.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board’s funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute $25 million annually to the System payable July 1st of each year. Based on those assumptions, the System’s fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

**Target Allocations**

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016, is summarized in the below table.

| Asset Class | Target Asset Allocation | Real Rate of Return Arithmetic Basis | Long-term Expected Return Rate of Return |
|---|---|---|---|
| Broad US Equity | 36.00% | 4.80% | 1.73% |
| Broad International Equity | 18.00% | 6.05% | 1.09% |
| Private Equity | 12.00% | 8.50% | 1.02% |
| Intermediate Bonds | 23.40% | 1.50% | 0.35% |
| Core Real Estate | 4.00% | 4.50% | 0.18% |
| High Yield Bonds | 2.60% | 3.25% | 0.08% |
| Non-Core Real Estate | 4.00% | 7.50% | 0.30% |
| | 100.00% | | 4.75% |
| | | Inflation | 3.25% |
| | Expected arithmetic nominal return | | 8.00% |

The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

**Sensitivity Analysis**

| | 1.0% Decrease (6.75%) | Current Discount Rate (7.75%) | 1.0% Increase (8.75%) |
|---|---|---|---|
| Proportionate share of the net pension liability | $ 3,049,556 | $ 2,272,867 | $ 1,618,980 |

## NOTE 8 PERS RETIREMENT PLAN

### Plan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

### Summary of Benefits

**Member's highest average compensation (HAC)**

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

**Compensation Cap**

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

| | |
|---|---|
| Service retirement: | |
| Hired prior to July 1, 2011 | Age 60, 5 years of membership service;<br>Age 65, regardless of membership service; or<br>Any age, 30 years of membership service. |
| Hired on or after July 1, 2011 | Age 65, 5 years of membership service;<br>Age 70, regardless of membership service. |
| Early retirement, actuarially reduced | |
| Hired prior to July 1, 2011 | Age 50, 5 years of membership service; or<br>Any age, 25 years of membership service. |
| Hired on or after July 1, 2011 | Age 55, 5 years of membership service. |

**Vesting**

5 years of membership service.

**Monthly benefit formula**

Members hired prior to July 1, 2011:
- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:
- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

**Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.
- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **between** July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
  - A maximum of 1.5% each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  - 0% whenever the amortization period for PERS is 40 years or more.

**<u>Overview of Contributions</u>**

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are shown in the table below.

| **Fiscal Year** | **Member** | | **State & Universities** | **Local Government** | | **School District** | |
|---|---|---|---|---|---|---|---|
| | **Hired <07/01/11** | **Hired >07/01/11** | **Employer** | **Employer** | **State** | **Employer** | **State** |
| 2017 | 7.900% | 7.900% | 8.470% | 8.370% | 0.100% | 8.100% | 0.370% |
| 2016 | 7.900% | 7.900% | 8.370% | 8.270% | 0.100% | 8.000% | 0.370% |
| 2015 | 7.900% | 7.900% | 8.270% | 8.170% | 0.100% | 7.900% | 0.370% |
| 2014 | 7.900% | 7.900% | 8.170% | 8.070% | 0.100% | 7.800% | 0.370% |
| 2012-2013 | 6.900% | 7.900% | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% |
| 2010-2011 | 6.900% | | 7.170% | 7.070% | 0.100% | 6.800% | 0.370% |
| 2008-2009 | 6.900% | | 7.035% | 6.935% | 0.100% | 6.800% | 0.235% |
| 2000-2007 | 6.900% | | 6.900% | 6.800% | 0.100% | 6.800% | 0.100% |

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
   c. The Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
3. Non Employer Contributions:
   a. Special Funding
      i. The state contributed 0.1% of members' compensation on behalf of local government entities.
      ii. The state contributed 0.37% of members' compensation on behalf of school district entities.
   b. Not Special Funding
      i. The state contributed a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

**Net Pension Liability**

The College recorded a liability of $1,459,739 for its proportionate share of the Net Pension Liability (NPL). The Net Pension Liability was measured as of June 30, 2016, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2016. The College's proportion of the Net Pension Liability was based on the College's contributions received by PERS during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2017, the College's proportion was 0.0857 percent.

***Changes in actuarial assumptions and methods***: There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

***Changes in benefit terms***: There have been no changes in benefit terms since the previous measurement date.

***Changes in proportionate share***: Between the measurement date of the collective Net Pension Liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective NPL since the previous measurement date.

| Pension Expense as of 6/30/2017 | PERS |
|---|---|
| College's Proportionate Share | $ 108,660 |
| State of Montana Proportionate Share Associated with the Employer | 27,070 |
| Total | $ 135,730 |

At June 30, 2016, the College recognized $108,660 for its proportionate share of the Plan's pension expense and recognized grant revenue of $1,495 for the state of Montana proportionate share of the pension expense associated with the employer. Additionally, the employer recognized grant revenue of $25,575 from the Coal Severance Tax fund.

**Support Revenue**

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of special funding attributable to the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

**Deferred Inflows and Outflows**

At June 30, 2017, the employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 7,876 | $ 4,832 |
| Changes in actuarial assumptions | - | - |
| Difference between projected and actual investment earnings | 137,332 | - |
| Changes in proportion and differences between actual and expected contributions | 38,346 | - |
| Contributions paid to PERS subsequent to the measurement date – FY 2017 contributions | 91,974 | - |
| | $ 275,529 | $ 4,832 |

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | Amount recognized in pension expense as an increase or (decrease) to pension expense |
|---|---|
| Year Ended June 30 | |
| 2018 | $ 16,236 |
| 2019 | 16,236 |
| 2020 | 87,628 |
| 2021 | 58,625 |

**Actuarial Assumptions**

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2015, with update procedures to roll forward the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- Investment Return 7.75%
- Admin Expense as % of Payroll 0.27%
- General Wage Growth* 4.00%
  - includes Inflation at 3.00%
- Merit Increases 0% to 6%

**Guaranteed Annual Benefit Adjustment (GABA)**

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided above) each January, **inclusive** of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.

Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

**Target Allocations**

The long-term expected return on pension plan assets was reviewed as part of the regular experience study prepared for the Plan. The experience study, performed for the period of fiscal years 2003 through 2009, was outlined in a report dated June 2010 and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized below:

| Asset Class | Target Asset Allocation | Real Rate of Return Arithmetic Basis | Long-term Expected Return Rate of Return |
|---|---|---|---|
| Cash Equivalents | 2.60% | 4.00% | 0.10% |
| Domestic Equity | 36.00% | 4.55% | 1.64% |
| Foreign Equity | 18.00% | 6.35% | 1.14% |
| Fixed Income | 23.40% | 1.00% | 0.23% |
| Private Equity | 12.00% | 7.75% | 0.93% |
| Real Estate | 8.00% | 4.00% | 0.32% |
| | 100.00% | | 4.37% |
| | | Inflation | 3.00% |
| | Portfolio Return Expectation | | 7.36% |

**Sensitivity Analysis**

| | 1.0% Decrease (6.75%) | Current Discount Rate (7.75%) | 1.0% Increase (8.75%) |
|---|---|---|---|
| Proportionate share of the net pension liability | $ 2,118,190 | $ 1,459,739 | $ 892,549 |

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

**PERS Disclosure for the defined contribution plan**

Miles Community College contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERSDCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The Montana Legislature has the authority to establish and amend contribution rates.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2016, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled $382,656.

## NOTE 9 OTHER POST EMPLOYMENT BENEFITS

The College adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Plan Description. The healthcare plan provides for, and Montana State Law (§2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. Actuaries Northwest has prepared for the Montana University System the Annual Required Contribution (ARC) under Governmental Accounting Standards Boards. The above described OPEB plan does not provide a stand-alone financial report.

*Funding Policy*. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

*Annual OPEB Cost and Net OPEB Obligation*. The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

| | |
|---|---|
| Current year OPEB activity | |
| Annual Required Contribution (ARC) | $ 99,876 |
| Interest on net OPEB obligation | 51,285 |
| Amortization of Net OPEB Obligation | (40,223) |
| Annual OPEB cost (expense) | $ 110,938 |
| Employer Contributions made | (37,029) |
| Increase in current OPEB obligation | $ 73,909 |
| | |
| Net Position change in OPEB | |
| | |
| Net OPEB obligation – beginning of year | $ 863,542 |
| Current year net obligation | 73,909 |
| Net OPEB obligation – end of year | $ 937,451 |

*Actuarial Methods and Assumptions.* The actuarial funding method used to determine the cost was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

The following actuarial methods and assumptions were used:

| | |
|---|---|
| Interest/Discount rate (average anticipated rate) | 4.25% |
| Average salary increase (consumer price index) | 2.50% |
| Participant percentage: | |
| Future retirees assumed to elect coverage at retirement | 50.00% |
| Future eligible spouses of future retires assumed to elect coverage | 60.00% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

## NOTE 10 INSURANCE BENEFITS TO RETIRED EMPLOYEES

The College adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

*Plan Description*. Full-time employees are eligible to extend their Montana University System Group Insurance Plan benefits beyond retirement from the College if they meet all of the following conditions:

1. They have worked at the College for at least 10 years of continuous service.

2. They are eligible for retirement benefits in the Montana State Retirement System.

3. They retire from the College as a full-time employee

The following benefits are extended to people meeting the above conditions:

1. Ten years continuous service: one half of the current premium paid by the College toward the College group plan for one year following retirement.

2. Fifteen years continuous service: three-quarters of the current premium paid by the College toward the College group plan for one year following retirement.

3. Twenty years continuous service: full cost of the current premium paid by the College toward the College group plan for one year following retirement.

4. Twenty-five years continuous service: full cost of the current premium paid by the College toward the College group plan for one year and half of the premium for one additional year following retirement.

5. Thirty years continuous service: full cost of the current premium paid by the College toward the College group plan for two years following retirement.

The insurance retirement benefits will not be broken into smaller fractions than what is listed above. Thus, an employee who has served thirteen years and decides to retire would receive the benefit listed for an employee who had worked ten years. An employee must complete at least fifteen years to be eligible for the next level of benefits.

Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. The above described OPEB plan does not provide a stand-alone financial report.

*Funding Policy.* The College pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

*Annual OPEB Cost and Net OPEB Obligation.* The College's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation.

| Current year OPEB activity | |
|---|---|
| Annual Required Contribution (ARC) | $ 86,785 |
| Interest on net OPEB obligation | 9,325 |
| Adjustment to Annual Required Contribution (ARC) | (12,062) |
| Annual OPEB cost (expense) | $ 84,048 |
| Age Adjusted Contributions Made | (3,162) |
| Change in Net OPEB Obligation (NOO) | $ 80,886 |

| Net Position change in OPEB | |
|---|---|
| Net OPEB obligation (NOO) – beginning of year | $ 373,014 |
| Change in Net OPEB Obligation (NOO) | 80,886 |
| Net OPEB obligation (NOO) – end of year | $ 453,900 |

*Actuarial Methods and Assumptions.* The actuarial funding methods used to determine the cost was the Entry Age Actuarial Cost Method and the Level Percentage of Payroll Amortization Method.

In Level Percentage of Payroll Amortization, amortization payments or charges are calculated so that they represent a constant percentage of the projected covered payroll over a given number of years. As a result, the dollar amount of amortization payments or charges generally will increase over time in proportion to the effect of inflation on the covered payroll. However, the method is designed to keep the amortization payments or charges level in inflation-adjusted dollars over time.

In Level Dollar Amortization, the total amount to be amortized is divided into equal dollar amounts (including principal and interest on the declining balance) to be paid or charged over a given number of years, much like a mortgage payment. The amounts amortized each year generally can be expected to decrease over time (a) as a percentage of covered payroll and (b) in inflation-adjusted dollars.

The following actuarial methods and assumptions were used:

| | |
|---|---|
| Average retirement age | 62 |
| Interest/Discount rate (average anticipated rate) | 2.50% |
| Average salary increase (consumer price index) | 2.70% |
| Participant percentage | 100.00% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

## NOTE 11 NET POSITIONS

The College's net position is classified as follows:

*Net Investment in Capital Assets* – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

*Restricted Net Position, Expendable* – This includes resources which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represents resources derived from student fees, state appropriations, and sales and services of educational departments. These resources are used for transactions related to the educational and general obligations of the College, and may be used at the discretion of the governing board to meet current expenses for any lawful purpose.

When both restricted and unrestricted resources are available for use, it is the College's practice to use restricted resources first, then unrestricted resources as they are needed.

## NOTE 12 RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component unit during the year ended June 30, 2017:

| Component Unit | Significant Transactions |
|---|---|
| Miles Community College Endowment | |
| Ag Advancement Center | $ 2,688,003 |
| Scholarships, Stipends, & Other | 29,404 |
| | $ 2,717,407 |

## NOTE 13 RISK MANAGEMENT

The College faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees' torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the College has no coverage for potential losses from environmental damages.

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

**REQUIRED SUPPLEMENTARY INFORMATION**

**Miles Community College, Custer County, Montana**
**REQUIRED SUPPLEMENTAL INFORMATION**
**Schedule of Funding Progress**
**For the Fiscal Year Ended June 30, 2017**

**Montana University System Other Post-Employment Benefits**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| July 1, 2009 | $ - | $ 1,927,543 | $ 1,927,543 | 0% | $ 3,258,396 | 59% |
| July 1, 2011 | $ - | $ 1,059,518 | $ 1,059,518 | 0% | $ 3,127,539 | 34% |
| July 1, 2013 | $ - | $ 1,002,418 | $ 1,002,418 | 0% | $ 2,789,281 | 36% |
| July 1, 2015 | $ - | $ 1,054,771 | $ 1,054,771 | 0% | $ 3,151,488 | 33% |

**Miles Community College Group Insurance Plan Other Post-Employment Benefits**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age Cost Method (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| June 30, 2016 | $ - | $ 542,287 | $ 542,287 | 0% | $ 2,374,014 | 23% |

See Notes to Required Supplementary Information

**Miles Community College, Custer County, Montana**
**REQUIRED SUPPLEMENTAL INFORMATION**
**Year Ended June 30, 2017**

**Schedule of Proportionate Share of Net Pension Liability**
**Teacher's Retirement System**
**Last 10 - Fiscal Years ***

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Employer's proportionate share of the net pension liability | 0.1244% | 0.1248% | 0.1231% |
| Employer's proportion share of the net pension liability | $ 2,272,867 | $ 2,051,243 | $ 1,894,158 |
| State of Montana's proportionate share of the net pension liability associated with the Employer | 1,484,012 | 1,380,508 | 1,299,891 |
| Total | $ 3,756,879 | $ 3,431,751 | $ 3,194,049 |
| Employer's covered payroll | 1,614,843 | 1,593,474 | 1,552,261 |
| Employer's proportion share of the net pension liability as a percentage of its covered payroll | 140.74% | 128.73% | 122.03% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.69% | 69.30% | 70.36% |

Data reported is measured as of July 1, (measurement date)

**Schedule of Proportionate Share of Net Pension Liability**
**Public Employees Retirement Systems of Montana**
**Last 10 - Fiscal Years ***

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Employer's proportionate share of the net pension liability | 0.0857% | 0.0795% | 0.0842% |
| Employer's proportion share of the net pension liability | $ 1,459,739 | $ 1,111,249 | $ 1,048,591 |
| State of Montana's proportionate share of the net pension liability associated with the Employer | 17,836 | 13,650 | 12,805 |
| Total | $ 1,477,575 | $ 1,124,899 | $ 1,061,396 |
| Employer's covered payroll | $ 1,026,516 | $ 927,732 | $ 952,643 |
| Employer's proportion share of the net pension liability as a percentage of its covered payroll | 142.20% | 119.78% | 110.07% |
| Plan fiduciary net position as a percentage of the total pension liability | 74.71% | 78.40% | 79.87% |

Data reported is measured as of June 30, (measurement date)

* GASB Statement No. 68 requires ten years of information to be presented in this table. However until a full 10-year trend is compiled, the College will present information for those years for which information is available.

See Notes to Required Supplementary Information

**Miles Community College, Custer County, Montana**
**REQUIRED SUPPLEMENTAL INFORMATION**
**Year Ended June 30, 2017**

**Schedule of Contributions**
**Teacher's Retirement System**
**Last 10 - Fiscal Years ***

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contractually required contributions | $ 152,028 | $ 141,834 | $ 150,470 |
| Contributions in relation to the contractually required contributions | $ 152,028 | $ 141,834 | $ 150,470 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| College's covered payroll | $ 1,725,685 | $ 1,614,943 | $ 1,593,474 |
| Contributions as a percentage of covered payroll | 8.81% | 8.78% | 9.44% |

Data reported is measured as of June 30 (fiscal year end)

**Schedule of Contributions**
**Public Employees Retirement Systems of Montana**
**Last 10 - Fiscal Years ***

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contractually required contributions | $ 91,974 | $ 90,371 | $ 84,347 |
| Contributions in relation to the contractually required contributions | $ 91,974 | $ 90,371 | $ 84,347 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| College's covered payroll | $ 1,098,986 | $ 1,026,516 | $ 927,732 |
| Contributions as a percentage of covered payroll | 8.37% | 8.80% | 9.09% |

Data reported is measured as of June 30 (fiscal year end)

* GASB Statement No. 68 requires ten years of information to be presented in this table. However until a full 10-year trend is compiled, the College will present information for those years for which information is available.

See Notes to Required Supplementary Information

## NOTE 1 TEACHER'S RETIREMENT SYSTEM

The following changes to the plan provision were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, and becomes a member again on or after July 1, 2013.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

- (1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
- (4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution:** 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
    - The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
    - The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
    - A State or employer contribution rate increase or flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.
- (7) **Disability Retirement:** A member will not be eligible for the disability retirement if the member is or will be eligible for a service retirement on the date of termination
- (8) **Guaranteed Annual Benefit Adjustment (GABA):**
    - If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to $25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was $22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
    - School Districts contributions will increase from 7.47% to 8.47%
    - The Montana University System and State Agencies will increase from 9.85% to 10.85%.

- The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024, the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

**Changes in actuarial assumptions and other inputs:**

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.

The following changes to the actuarial assumptions were adopted in 2015:

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The 0.63% load applied to the projected retirement benefits of the university members "to account for larger than average annual compensation increases observed in the years immediately preceding retirement" is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the $500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to "retain membership in the System" are covered by the $500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%.
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

Mortality among disabled members was updated to the following:

For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

***Method and assumptions used in calculations of actuarially determined contributions:***

| | |
|---|---|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of pay, open |
| Remaining amortization period | 26 years |
| Asset valuation method | 4-year smoothed market |
| Inflation | 3.25 percent |
| Salary increase | 4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members; |
| Investment rate of return | 7.75 percent, net of pension plan investment Expense, and including inflation |

## NOTE 2 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Changes of Benefit Terms

The following changes to the plan provisions were made as identified:

**2013 Legislative Changes:**

<u>House Bill 454 – Permanent Injunction Limits Application of the GABA Reduction passed under HB 454</u>

Guaranteed Annual Benefit Adjustment (GABA) – for PERS

- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.
    - 3% for member hired prior to July 1, 20017
    - 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
    - Members hired on or after July 1, 2013
        - 1.5% each year PERS is funded at or above 90%
        - 1.5% is reduced by .1% for each 2% PERS is funded below 90%; and,
        - 0% whenever the amortization period for PERS is 40 years or more.

**2015 Legislative Changes:**

General Revisions – House Bill 101, effective January 1, 2016

**Second Retirement Benefit –** for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less that 2 years of service credit before retiring again:
    - refund of member's contributions from second employment plus regular interest (currently 0.25%);
    - no service credit for second employment;
    - start same benefit amount the month following termination; and
    - GABA starts again in the January immediately following second retirement.
2) For members who retire **before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:**
    - member receives a recalculated retirement benefit based on laws in effect at second retirement; and
    - GABA starts in the January after receiving recalculated benefit for 12 months.
3) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:**
    - refund of member's contributions from second employment plus regular interest (currently 0.25%);
    - no service credit for second employment;
    - start same benefit amount the month following termination; and
    - GABA starts again in the January immediately following second retirement.
4) For members who retire **on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:**
    - member receives same retirement benefit as prior to return to service;
    - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
    - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funds Laws – House Bill 107, effective July 1, 2015

**Employer Contributions and the Defined Contribution Plan –** for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

**Changes in Actuarial Assumptions and Methods**

**Method and assumptions used in calculations of actuarially determined contributions**
The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

| | |
|---|---|
| Admin Expense as % of Payroll | 0.27% |

The following Actuarial Assumptions are from the June 2010 Experience Study:

| | |
|---|---|
| General Wage Growth* | 4.00% |
| *Includes inflation at | 3.00% |
| Merit increase | 0% to 6.0% |
| Investment rate of return | 7.75 percent, net of pension plan investment expense, and including inflation |
| Asset valuation method | 4-year smoothed market |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of pay, open |

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

**SUPPLEMENTARY INFORMATION**

**Miles Community College, Custer County, Montana**
**Functional Classification of Operating Expenses**
**For the Fiscal Year Ended June 30, 2017**

| | Instruction | Public Service | Academic Support | Student Services | Institutional Support | Scholarships and Fellowships | Operation And Maintenance | Auxiliary | Totals |
|---|---|---|---|---|---|---|---|---|---|
| Personal services | $ 2,149,631 | $ 39,715 | $ 489,312 | $ 771,148 | $ 912,653 | $ - | $ 276,550 | $ 412,777 | $ 5,051,786 |
| Contracted services | 51,208 | 6,890 | 110,977 | 265,840 | 242,577 | - | 263,435 | 133,836 | 1,074,763 |
| Scholarships and grants | 300 | - | - | 138,281 | - | 895,754 | - | 19,995 | 1,054,330 |
| Supplies | 161,366 | 1,468 | 68,104 | 135,200 | 60,150 | - | 46,892 | 424,158 | 897,338 |
| Depreciation and amortization expense | - | - | - | - | - | - | 577,921 | - | 577,921 |
| Other operating expense | 96,348 | 6,781 | 161,676 | 44,517 | 89,799 | - | 2,229 | 12,094 | 413,444 |
| Travel | 21,803 | 592 | 9,878 | 102,338 | 27,700 | - | 82 | 8,390 | 170,783 |
| Bad debt expense | - | - | - | 110 | 45,028 | - | - | 40 | 45,178 |
| | $ 2,480,656 | $ 55,446 | $ 839,947 | $ 1,457,434 | $ 1,377,907 | $ 895,754 | $ 1,167,109 | $ 1,011,290 | $ 9,285,543 |

**Miles Community College, Custer County, Montana**
**Student Financial Aid Modified Statement of Cash Receipts and Disbursements**
**For the Fiscal Year Ended June 30, 2017**

| | Pell | CWS | SEOG |
|---|---|---|---|
| Beginning cash balance | $ (66,111) | $ (20,514) | $ (4,262) |
| Additions: | | | |
| Federal advances | 592,092 | 35,514 | 37,682 |
| Matching funds | - | 9,248 | - |
| Interest income | - | - | - |
| Total additions | $ 592,092 | $ 44,762 | $ 37,682 |
| Deductions: | | | |
| Distribution to students | $ 604,904 | $ 41,279 | $ 37,070 |
| Administrative expenses | - | 3,483 | - |
| Total deductions | $ 604,904 | $ 44,762 | $ 37,070 |
| Net change to cash | $ (78,923) | $ (20,514) | $ (3,650) |
| Ending cash balance | $ (12,812) | $ - | $ 612 |

**Miles Community College, Custer County, Montana**
**Schedules of Federal Expenditures**
**Student Financial Assistance Programs**
**For the Fiscal Year Ended June 30, 2017**

| | | |
|---|---|---|
| College Work Study | | |
| Wages | $ | 41,279 |
| Administrative cost | | 3,483 |
| Total College Work Study | $ | 44,762 |
| | | |
| Supplemental Education Opportunity Grant Program | | |
| Student Grants | $ | 37,070 |
| | | |
| Pell Grant Program | | |
| Student grants | $ | 607,812 |

**Miles Community College, Custer County, Montana**
**Schedule for Full Time Equivalent**
**For the Fiscal Year Ended June 30, 2017**

| Semester | Resident | WUE | Nonresident | Total |
|---|---|---|---|---|
| Summer 2016 | 54.1 | 0.3 | 4.0 | 58.4 |
| Fall 2016 | 312.8 | 30.9 | 47.8 | 391.5 |
| Spring 2017 | 329.5 | 24.7 | 41.4 | 395.6 |

The FTE calculations were based on enrollment at the end of the third week of the semester.

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

**OTHER INFORMATION**

EideBailly

CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Miles Community College
Miles City, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Miles Community College (the College) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 12, 2018.

**Internal Control over Financial Reporting**
In planning and performing our audit of the financial statements, we considered Miles Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Miles Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Miles Community College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.





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**Compliance and Other Matters**
As part of obtaining reasonable assurance about whether Miles Community College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
February 12, 2018